PitchBook

PitchBook's Guide to Your Pitch

A former LP's advice for emerging managers preparing to fundraise

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Credits & Contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Nizar Tarhuni Senior Director, Institutional Research & Editorial
Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis
Hilary Wiek, CFA, CAIA Lead Analyst, Fund Strategies & Performance
hilary.wiek@pitchbook.com
pbinstitutionalresearch@pitchbook.com

Data
Andrew Akers, CFA Quantitative Research Analyst

Publishing

Designed by **Mara Potter**

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Introduction

Every year, more than $1 trillion is committed to private market funds globally, yet the number one frustration voiced by fund managers is that it is incredibly difficult to raise a fund. This seeming disconnect stems from the fact that a small number of large funds from established managers garners an outsized share of capital commitments each year, a phenomenon that has played out across every private market strategy type. From 2006 to September of 2021, 8.5% of the funds raised were over $1 billion in size, but they represented 61.3% of the capital committed. On the other hand, 48.6% of the funds raised were smaller than $100 million, but they only represented 4.0% of the capital committed.

Similar results come from an analysis of "experienced" firms versus "emerging" firms.[1] Emerging managers have raised 54.8% of the funds since 2006 but only 29.2% of the capital.

So, while record amounts of assets are being raised by private funds, resulting in $3.3 trillion in private capital dry powder, there are still many managers who struggle to raise funds every year. Many of these seek the perfect call list—one that will identify potential LPs salivating for an opportunity to invest with them—but GPs could improve their attractiveness by better expressing their intent and investment merits. This guide is aimed primarily at GPs hoping to avoid pitfalls when positioning their offerings. The advice falls largely into three broad categories: know yourself, know your customer, and be prepared.

While this is written from the perspective of an ex-LP providing advice to GPs, LP readers may also benefit from thoughts that perhaps they have not considered when evaluating GPs as potential partners.

The Spinal Tap of due diligence preparations

It may seem trite, but there is a long history of business advice being framed with various numbers of Ps. A quick internet search suggests five Ps of marketing, five Ps of success, five Ps of strategy, five Ps of leadership, five Ps

1: PitchBook groups fund managers with three or fewer funds as emerging, with the rest deemed to be experienced.

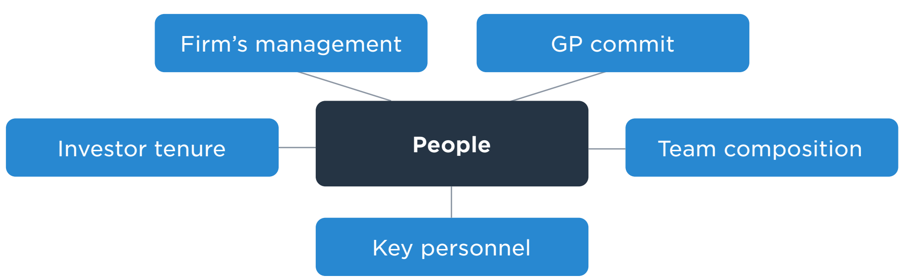
of equity investing, and so on. Like the fictional heavy metal band Spinal Tap, whose loud perfomances gave birth the phrase, "Turn it up to 11,"—I have taken the Ps up one more notch—to six—and even offer a bonus P! This list highlights the areas many LPs might want to evaluate when faced with a potential investment. It must be noted at the start that there is no single correct response to any of these areas of inquiry, but the answer must make sense in the context of what the GP is offering, and the responses must form a holistically coherent picture.

For that latter point, I'll provide a few examples. It is not wrong for a GP to say that it incentivizes people on the deals it does (an "eat what you kill" model), but if it also says it has a team-based culture where everyone's complementary skills make the fund a better whole (also a perfectly fine answer on its own), then perhaps the individualized incentive structure is not in alignment with the intended team culture. For another example, if a GP claims that ESG principles are important, but the team slide does not show any diversity, the addressable market presentation slide shows oil drilling and tree-cutting in sensitive ecosystems, and the GP has been in the news due to labor matters litigation at portfolio companies, an LP may accuse the GP of greenwashing, or professing ESG principles without credible supporting behaviors. For a third example, when a fund manager seeking to raise a $50 million fund says its portfolio will include 15 to 20 companies with enterprise values of $1 billion or more, and that it plans to take controlling positions—perhaps the GP has not done the math on how these will all fit together.

Thinking carefully about the whole picture, with the help of the six Ps, can ensure that a GP is prepared to enter into discussions with investors and is less likely to provide reasons for a prospective LP to say "no." LPs are forever being hounded by people who want their investment capital and must say "no" much more often than "yes." This guide should also help GPs better target potential investors and avoid some simple mistakes that could cause LPs to remove a fund from further consideration. It is not, of course, an exhaustive list, and there are other frameworks LPs may have for their due diligence, but the guidance should be useful for emerging managers struggling to frame themselves for potential investors.

The six Ps

People



This includes everything about a firm's management, how and why it came to be, who works for it and runs it, who owns it, how decisions are made, and so on. Also falling under the "people" umbrella is the investment team responsible for the fund under consideration. At a small firm, there will likely be a large

At a small firm, there will likely be a large overlap between the investment and management teams, but for firms with multiple strategies under different or overlapping teams, investment and management will be almost completely separate entities.

overlap between the investment and management teams, but for firms with multiple strategies under different or overlapping teams, investment and management will be almost completely separate entities. Each of these areas below is key to LPs because the GP is proposing a long-term investment into a blind pool—committing to a fund without knowing in which companies the fund will invest. To provide more perspective, here are some questions prospective investors may ask, why they are being raised, and how a GP might approach the answers.

- **Why was the firm created?** Answers to this question may range from spiteful reactions to prior situations to a clear entrepreneurial vision of a workplace that consciously does things differently from the firms in which the founders learned their craft. If a GP is purposely abandoning an approach that provided the team's expertise at a prior firm, it must be very specific about what the individuals are contributing that is relevant to the current firm as well as the things they are hoping to jettison—and why the firm will be the better for it. Hopefully, GPs know this final point, but denigrating a previous employer rarely leads to positive outcomes and can be a landmine, as the people you are talking to may not share your feelings about that organization. GPs should focus more on what they plan to do over rather than what they are escaping.

- **How is the firm managed?** Who has a say? Who has ownership? How will ownership be allocated over time? Is there outside ownership, and if so, what is the nature of the deal? A lot of GPs put very little in their pitches about firm management, but these questions speak to the viability of the asset manager, how well it has thought through how decisions about the firm will be made, and whether it understands that running an asset management firm is more than just doing deals. If the same people are handling the investing, managing, and fundraising as well as performing investor relations functions, there could be the perception that nothing is getting anyone's full attention. In sum, this set of questions is about how the business of the GP will be run. Some of the more differentiated GP responses to these questions tie lessons learned from managing deals and operating companies to how they plan to run their partnership.

- **What is the GP commit?** LPs want to know that GPs have skin in the game. To paraphrase a previous manager of mine, if the LPs are suffering in a fund, the GPs should be suffering as well. If the team does not have the financial resources to collectively commit 2% of the fund size, they should be open about that and be willing to prove that what is being committed is a significant personal stake.[2] Not everyone will ask such culturally delicate questions, but some will, and being cagey or too creative in responses may be a turn-off to investors.

- **How is the team composed?** Why is each person important to the team? How are they complementary? If team members are carbon copies of each other, with the same investment banking background and the same prior employer, they may seem interchangeable—which is good if someone leaves—but they may also lack fresh perspectives and be prone to group

2: For more on the alignment of interests between LPs and GPs, ILPA has formulated principles that it feels ought to be industry-standard approaches to this topic: "ILPA Principles 3.0: Fostering Transparency, Governance and Alignment of Interests for General and Limited Partners," ILPA, 2019.

think. There are many ways to do a deal, operate a company, and exit an investment, so showing that the GP has team members with a variety of experiences can be helpful in convincing LPs that the GP has the capabilities to maximize the value of an investment.

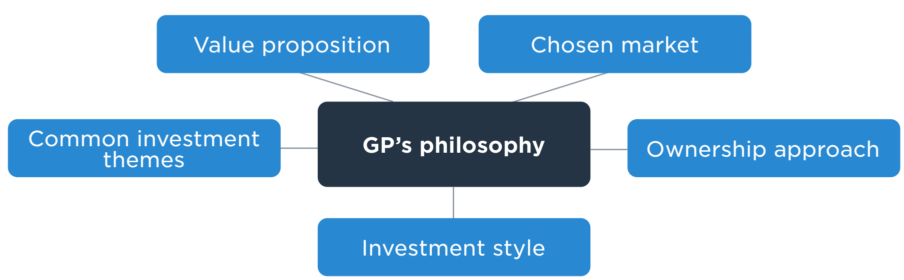
- **Who are the Key People[3] and why?** GPs are proposing to form a very long-term relationship with LPs. In addition, LPs are being asked to commit to a blind pool, so the main comfort they have is that the people they put their trust in will be there throughout the life of the fund. GPs need to do some soul searching about how much turnover could occur and by which team members before the strategy would no longer be viable. They must further realize that their perspective will be more forgiving than that of the prospective investors. GPs may have a difficult sell if they simultaneously try to convince LPs that every member of the team is important but half would need to leave before a Key-Person Clause was triggered.

- **Are there longevity issues?** Some new GPs launch based on the hallowed experience of someone with very long tenure in private market investing—so long that some might question whether the end of that person's career will predate the end of the fund. While many investment professionals seem to see the idea of working until they die in their office chair as virtuous, questions as to what the GP's plans are should this person leave the firm before the fund ends will come with irritating frequency.

I cannot stress this enough—please do not provide a cumulative years of experience figure.

- **Finally—and I cannot stress this enough—please do not provide a cumulative years of experience figure.** First off, a 50-year figure could hide the fact that one person has 41 years of experience and the other nine on the team have one year each. In addition, the main reason time is an important indicator is that investors learn by going through different cycles, so if 10 people have been investing for 10 years for a cumulative 100 years of experience, they have faced the same crises and bubbles in the same 10-year horizon, so the experience is not necessarily additive. This "statistic" is always cringeworthy when included in a pitch.

Philosophy



This P is sometimes difficult to articulate, but it aims to understand the market opportunity the GP is hoping to address and how it plans to exploit the opportunity. This seems straightforward, but in a world where limited

3: A Key Person generally has specialized knowledge, skills, and/or leadership qualities that are vital to a fund's success. An event (death, retirement, termination, long-term illness, etc.) that materially affects a Key Person's ability to contribute to a fund's success will typically trigger the Key Person Clause in an LPA, which would prohibit the GP from making new investments.

Recall that you are asking LPs to trust you, to invest in a blind pool that they hope will be in good hands for ten or more years.

partnership agreements (LPAs) are typically written to provide the fewest constraints on the GP, it can be helpful for newer managers to clearly articulate a tight philosophy to give LPs a good idea of what is on offer. Recall that you are asking LPs to trust you, to invest in a blind pool that they hope will be in good hands for ten or more years. Being able to articulate the themes and sectors to be targeted, what the broad approach will be, and how the GP will be able to convince portfolio company owners to allow it to purchase or sell a stake will go a long way toward making LPs comfortable with the vision. While it is tempting to leave all avenues open because the future is murky, investors will appreciate a clear approach that they can visualize and around which they can form expectations. An additional bonus is that it will help the GP to focus on its key strengths and provide a rationale for avoiding out-of-scope investments, even if they do seem the opportunity of the century.

Some potential philosophy questions and thoughts about each:

- **What is the GP's value add?** This needs to go in two directions. First, it should address how the team is best positioned to buy, manage, and sell assets for a positive fund outcome. Second, it should state what the team can bring to potential portfolio companies to convince them that the fund manager will provide a better result than other sources of capital can. One might think LPs only want to hear about the first part, but if cash is all that a GP can bring to a deal, it might not get access to the savviest companies, which should be a concern for prospective LPs.

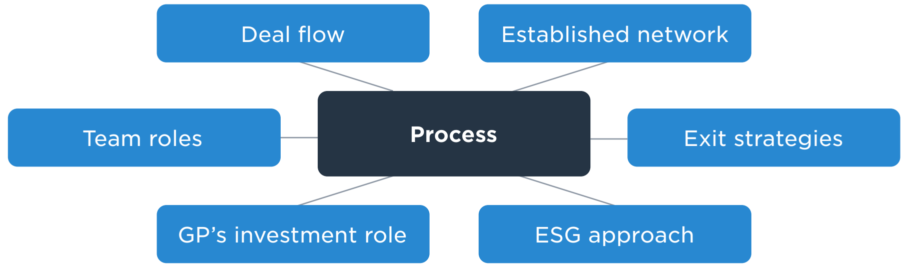
- **Why is this the GP's chosen market?** While an investment team's experience in a sector will often be a big reason, they should also discuss why small/mid/mega deals are right for them, why geography a/b/c is their target, and whether they have enough credibility in these markets to attract the attention of entrepreneurs and business owners seeking capital. Not every area is ripe for outsized investment returns at all times, and GPs should have knowledge of their spaces and their current prospects.

- **What common themes tie targeted investments together?** Will the GP seek orphaned assets, companies ready for a next phase of growth, products seeking international distribution, or something else? Connecting the expertise of the team to these themes will help bring credibility to the chosen philosophy.

- **Does the GP feel strongly that it must lead deals to be effective?** Does it believe it must be on the board? If it does not intend to lead deals, then what is its experience working with other GPs to effect positive change at a company, and what is its experience in influencing an investment from a minority position? Again, the GP must be ready to explain how the team's experience is well suited to the styles of management the fund plans to implement.

- **Does the GP see itself as an operator, a financial engineer, a roll-up strategist, or some combination of these?** These should be placed in the context of the market opportunity. In a time when many feel that further multiple expansion is unlikely, it is incumbent on the GP to have a plan for value creation independent of a generally rising tide.

Process



This is the end-to-end description of how a GP will source and close deals, manage portfolio companies, work with co-investors, and profitably exit investments. Many GPs spend a large portion of an LP pitch talking about the deal sourcing funnel and, it is hoped, some time on how they will manage the companies to a profitable exit, but the discussion about exits is often incredibly basic. While investors would all like to think they can create such a desirable asset that money will be thrown at it with very little effort, that seems rather optimistic; a GP should be able to demonstrate that it has experience running multiple types of exits and not just answer with a vague, "Hopefully the IPO window will be wide open when we're ready to sell."

Some potential questions and thoughts about responses:

- **If a GP says it has proprietary deal flow, as most do, can it back up the statement?** Where is the GP looking that others are not or cannot? Especially in PE, so much is done by auction that it is rare to find anyone with valid sources that will lead to a noncompetitive process. Some GPs do, however, have a hook in this area that seems legitimate. One example could be a VC fund of funds (FoF) that provides banking services to VC companies, partners, and entrepreneurs. At times when capital earmarked for VC funds is difficult to obtain because access is severely limited, that banking relationship may help the FoF gain an allocation that others are unable to get.

- **Does the GP have an established network for sourcing deals?** A GP must be able to describe its network for sourcing deals as well as the network that will help it make its deals better (new channels for the products of portfolio companies, for example). Many first-time fund managers come to market with a sweet deal or two lined up to impress potential investors, but they must be able to speak to the ways they will be able to uncover more.

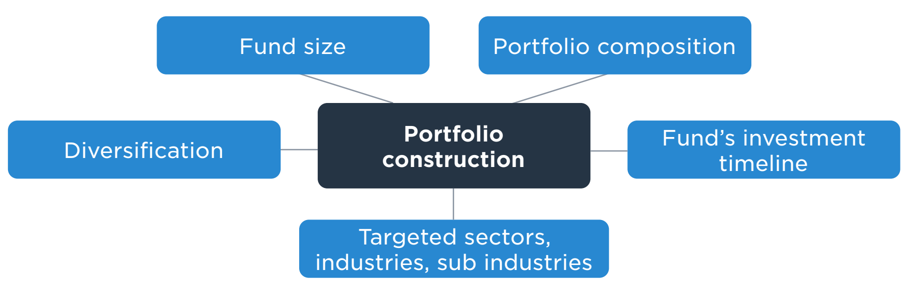
- **Are the members of the investment team right for the fund?** All of the Ps must fit with one another, so the make-up of the investment team should make sense for the process. If decisions are made by committee, how are votes decided? Are the Key People named in the LPA involved with every decision, and if not, should others be named as the Key People instead? Also important is determining if those who make the deals are the ones who will be managing and exiting the deals. Some firms have specialists for each stage of the investment, while others feel it is more important to have continuity from sourcing to exit. Or perhaps the deal team that stays with an investment has the full representation of specialists necessary to manage the investment from start to finish.

- **GPs should also be able to walk through their experiences in exiting companies—how have they maximized profits on exits?** Do they have experience with multiple types of exits and the ramifications of each? IPOs are very appealing to many, but not only are they relatively rare,[4] they introduce risk if shareholders are not able to sell their stakes right away due to lockup restrictions.

- **What does the GP do when leading an investment?** If it says it is very actively involved with both the companies and the boards, what specifically are its activities, and why is it in the best position to be performing them? Is there a formula for what the GP intends to do for a company, or has it demonstrated flexibility in its approach by tailoring its actions to a company's unique situation? Some GPs swear that their management of investments is the key to their ability to provide returns, but then they go on to split deals with other PE firms, sharing the burden of management and potentially compromising it if there are conflicts about how best to extract value from an investment. This is yet another reason to have a clear philosophy and process, as it should keep the GP from straying from its demonstrated strengths.

- **What is the GP doing with respect to ESG?** As laid out in "ESG and the Private Markets," ESG is not a strategy on its own but is added onto the traditional investment process. Material non-financial risks such as ESG should be understood and mitigated as much as possible to limit foreseeable negative events and create a more sustainable long-term business model. According to our "2021 Sustainable Investment Survey," few LPs will turn down an investment opportunity because it lacks an ESG framework, but the vast majority are asking about it and some will walk away if they are not satisfied with the response. If nothing else, a thorough response backed by demonstrable activities can be a positive differentiator for those LPs that have focused on ESG.

Portfolio Construction



This is largely about how the GP plans to diversify its fund across several dimensions, although it starts with how big the fund will be in the first place. A surprising number of managers do not know much about competitive offerings, so they do not know how they are positioned among other funds in the market. For each of these questions, GPs should not only have an answer, but a reason

4: Exit counts by type can be found in PitchBook's Q3 PE Breakdown and Q3 Venture Monitor for why they have made that decision. There is no single right answer, but we have shown that executing a strategy as either a generalist or a specialist can provide outsized returns.

- **What is the fund size?** Some GPs struggle with what number they should choose as their targeted fund size. If this is a first-time fund, the size can be almost mathematically determined by the investment amounts required and the number of companies in the portfolio. If it is a follow-on fund, and the GP is planning to increase the size from the predecessor fund, the GP should be able to explain why the fund needs to be larger. Was the original fund unable to carry out the strategy as outlined because it underestimated how much it would cost to acquire targeted companies? Did the GP discover that the original strategy was more effective with the larger companies it purchased? Did the GP expand its investment team to bring on specialists and bandwidth that grew the team's expertise? Responding to questions about an increase in fund size with comments that other funds are doing it is not very satisfying to prospective LPs. Often, getting larger means greater competition for deals as you enter the realm of funds with much deeper pockets. GPs should have a very good reason for stating that bigger will be better for them.

- **How many companies will the portfolio ultimately comprise?** This should logically connect to the size of the investment team and how many deals one person can not only work, but also manage through to an exit. The answer to this question should also have some relation to calculations the GP has done regarding how it plans to make money. Does it plan to operate under the VC Power Law,[5] where a small number of deals drive most of the returns, or does it seek to have every investment pull its own weight in contributing to positive fund returns? The former may require a larger portfolio of companies to ensure that no one failure sinks the entire fund, while the latter, more common in PE, may be able to focus on a handful of investments with less expectation of either a massive win or a catastrophic loss.

- **What is the largest proportion of the fund's capital that one deal may receive?** This may need to be worded carefully in the LPA, as an early deal may be a very large portion of first-close commitments, but it may be a more reasonable share of the fund's ultimate target size. Even so, one bad deal can be extremely detrimental to a fund's total performance, so a limit on how much capital may go into any single investment is a rule many see as prudent. This can also limit the temptation to throw good money after bad should the investment team overestimate the prospects of a company already in the portfolio. Some claim that knowing when to abandon a company is just as important as identifying an investment in the first place; having an upper limit on the capital any one investment may receive provides some discipline around that idea.

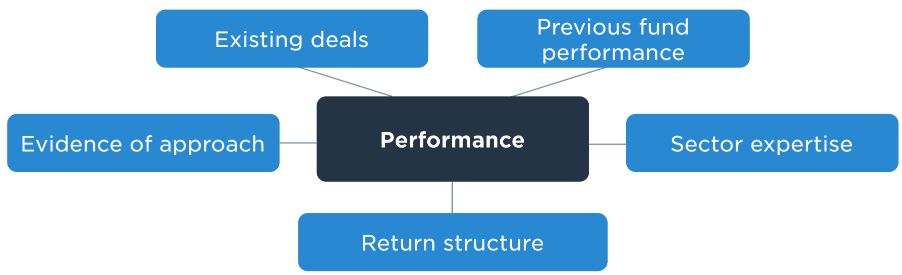
- **What sectors, industries, and sub industries will be targeted and in what proportions?** While some GPs may see merit in focusing a fund on a highly specialized sector, should that sector be hit with exogenous factors such as supply chain disruptions, adverse regulatory or judicial decisions,

5: "Picking Winners Is a Myth, But the Powerlaw Is Not," ULU, Clint Korver, May 29, 2018.

or a massive firm throwing tremendous resources to block potential disrupters, an entire portfolio could be negatively impacted. For that reason, assembling a portfolio with companies serving different client types, producing parts for different end products, or exporting to different geographies can provide some protection should there be a systemic failure in one particular area.

- **How quickly will the fund's capital be invested?** While the investment period stated in the LPA may be something around five years, is there a minimum number of calendar years across which the GP intends to invest the fund? Some GPs have been known to come back to market with a successor fund very quickly, suggesting a lack of selectivity when closing on deals or a drift in style if the individual deals are absorbing more capital than intended. By putting some guardrails around the time to invest, these outcomes are more likely to be avoided.

Performance



This P can be the most difficult for emerging managers, as they cannot point to a fully realized portfolio that reflects the team, philosophy, and process of the fund currently being contemplated. The worst thing a GP can do is draw too direct a link between itself and the performance of funds or deals upon which the members of the current GP team may have only had a glancing impact. Taking credit for a deal that occurred within a completely different infrastructure (a larger firm, a fund with a different strategy, an investment team with very little overlap to the current team) is sure to make prospective LPs skeptical.

So, what can a GP do for this portion of the diligence conversations?

- **Discuss any existing deals completed by the current team at the current firm.** Many emerging managers will go to market with a deal or two initially funded by short-term loans to show proof of concept when marketing. The GP can talk about how the team sourced these deals, what the plans are for them, how the team is progressing, and how its actions have impacted this progression. While exits may be some years off, prospective GPs should discuss likely prospects for these companies and how the team has the expertise and network to positively influence the result. Above all else, tie the existing deals to the philosophy and process outlined in the LPA. GPs must show that they are following through on what they promised and that the pool is not as blind as it seems because there is evidence of the strategy in action.

GPs must talk openly about the similarities between prior funds and the new one but also be frank about what has changed—key among them the fact that the prior GP may have been larger, had a more institutional back-office, and provided synergies across multiple strategies that the new firm can no longer access.

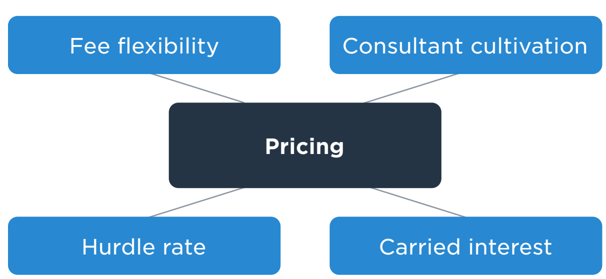
- **If the team is a wholesale lift-out from a prior GP, it might be possible to discuss fund-level performance, but even here, emerging managers need to be careful.** Presumably the current team is not with the prior firm for a reason, and that reason could have a significant influence on how the new fund will be managed. GPs must talk openly about the similarities between prior funds and the new one but also be frank about what has changed—key among them the fact that the prior GP may have been larger, had a more institutional back-office, and provided synergies across multiple strategies that the new firm cannot access. It is to be hoped most of the changes will benefit investors, but the GP should be able to articulate how the old ways held back fund performance and how the new firm will have a better chance at success.

- **If the emerging manager does not have any deals yet, and the team did not work together at a prior firm, this is an even more difficult exercise.** But expressing proof of the strategy in action through case studies should be possible. If the GP has said that it intends to invest in a particular industry because of collective expertise there, be explicit about where that expertise was earned and specific steps members of the team took to positively impact investments made in that sector.

- **Sector expertise likely brings with it a network within that sector, which should help with deal sourcing, M&A for add-ons, and exits to strategic buyers.** Providing some evidence of the network through references and even investments people in that network made in the GP's new venture could help build credibility in the capability of the team.

- **GPs should have put some thought into how they expect to earn their returns.** Not just the nuts and bolts of purchase price, plus company improvement, plus sales price, but also the composition of returns. Does the GP believe it will make most of its return on a couple of massive wins, or does it expect to avoid losses but also produce no investments that have particularly breathtaking results? Either way, can the GP tie its return strategy into previous experiences—either positive or negative? Maybe a lesson was learned that led to the current approach, or perhaps a prior model feels particularly natural to the team, and they plan to bring it to the current fund.

Pricing



Fund fees and terms are potentially the negotiable part of the discussion—if the GP is willing. In 2020, we published a note detailing how fees and terms are not as straightforward as they seem and mentioned that emerging managers might think through how they could appear more LP-friendly to distinguish themselves from the pack. In addition, in 2021 we published another note discussing how emerging managers may consider accepting seed or anchor investments to get their firm off the ground and attract other investors.

Emerging managers, just like any fledgling business, need to be cautious about how they fund themselves. LPs understand this and will caution GPs not to give too much away in a panic to land investors. If the GP decides to take on an anchor investor in exchange for a reduced management fee, it must be sure the deal is not so advantageous to the outside investor that the GP cannot run its business appropriately. The GP should have a business plan that accounts for the money required to properly diligence investments, pay top talent, and retain appropriate support services such as IT, auditing, and legal, and set fees accordingly.

Some additional thoughts related to fees and terms:

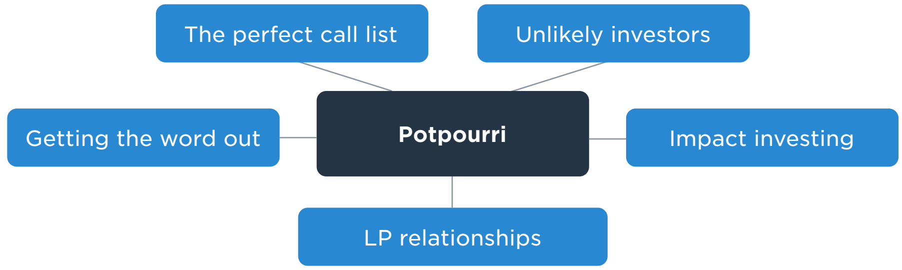
- **Emerging managers may want to think of ways they can be flexible on their fees and terms to attract the eyes of investors.** Skewing revenues to long-term results speaks to better alignment and happier LPs.

- So**me consultants will pool investors, and if they reach certain commitment hurdles, the fund managers will offer discounted fees.** If an emerging manager can catch the eye of an investment consultant, it can mean fewer prospecting meetings, as potential investors actively seeking to make commitments to a strategy such as the GP's will be brought right to them. In some cases, the investment consultant may have the discretion to make the commitments on behalf of the LPs, lessening the burden on the GP even further.

- **While 8% hurdle rates may be on their way out in this extended era of low interest rates, GPs should think through what a reasonable return should be and allocate it to LPs before collecting any carried interest.** While it may be tempting to do away with the hurdle entirely, this fund term doesn't come into effect until the GP exits the fund's investments, so it is a great way to attract LPs without making concessions that will damage the ability of the GP to operate its business at the start of the fund.

- **How will the GP handle carried interest calculations on IPOs?** Hopefully it is a thing of the past, but during the dot com boom, it was not uncommon for GPs to distribute shares but calculate carry based on the price on the day of distribution. The LPs could receive a diminished cash return, however, as they had to wait for the lock-up period to expire and then potentially sell while there was downward pressure on the shares because everyone else's lock-up was also expiring.

Potpourri



The promise was only for six Ps, but some additional thoughts potentially useful to emerging fund managers don't fit neatly into the above framework, necessitating a bonus seventh P!

- **Many emerging managers are deeply focused on assembling the perfect prospective LP call list.** Some thoughts on who might be likely investors for emerging managers:

    - **Family offices and LPs who feel less like institutions, such as individual people, are more likely to invest in early funds.** Something in the psychology of these investors often allows them to take chances on a good story over verifiable results.

    - **Some FoF believe it is worth the risk to identify emerging managers.** They may hope to get better terms or invest while the investment team is still hungry, but they may also hope to secure future access to winners before success has caused investors to flood the manager with more subscriptions than the GP can accommodate.

    - **Some investors or funds are seeking investment opportunities with very specific parameters such as diversity, emerging manager, or ESG mandates.** If a GP's strategy legitimately includes a matching component, they may receive a much warmer welcome than a less targeted investor might offer.

    - **Individuals or firms with whom the GP has co-invested previously can potentially help in several ways.** They may agree to act as references able to speak of the GP's demonstrated skill or be inclined to invest with an emerging manager themselves, an excellent signal to send to potential LPs.

    - **Investment consultants can be important allies:** While they may require a lot of meetings over several years, if a GP can get on a consultant's approved list, multiple LPs may be hand-delivered to the GP, allowing the effort that went into receiving the consultant's approval to scale nicely.

- **There are some investors that are unlikely to be attracted to emerging managers.** While it might be tempting to target large investors to limit the meetings a GP has to conduct in order to reach its target fund size, investors above a certain size may not be able to contemplate allocations

LPs also want to hear that the team's experiences have been instructive and that GPs have learned from their mistakes.

to managers below a certain size. If, for example, a pension fund has $50 billion in assets, a $10 million commitment to a $50 million first-time fund would not be worth the effort of diligencing and negotiating the stake. Even a 10x return from that fund would barely impact the overall performance of the investor. Beyond that, institutional investors typically want to see a true track record before investing. They may be willing to meet with a GP early in its life, but they will often want to watch its behavior through two or three funds before making a commitment.

- **Can people find you?** While it is helpful to put out press releases when a GP has made an investment or a successful exit, as it may lead to inbound calls to the GP, it often haunts asset managers that there are people looking for exactly what they are offering, but their investor relations efforts do not find the prospect in time. One way to avoid this issue is to ensure that databases are current on the team[6] and include investments, targeted sectors, and other facts about the manager and the fund, including that the fund is open and seeking commitments. Often the very best leads are the ones that have done their own initial diligence and have actively reached out for more information themselves.

- **Impact investing:** Be aware that if a GP successfully presents itself as an impact investor, some LPs will read that as code for providing social or environmental results at the expense of financial returns. The perception may be overblown, but a GP may need to have a thoughtful response to assuage the concern.

- **LPs can be a contrary bunch.** For that reason, many asset managers have been trained never to hint that they have drifted in their approach, as they want to portray themselves as stable and as predictable as possible to potential investors. That said, LPs also want to hear that the team's experiences have been instructive and that GPs have learned from their mistakes. The lessons should not be overlearned, though. Whipsawing the investment approach can make it hard to determine how a GP will act in the future. It is difficult balancing firmness of course with openness to learn.

Summary

The overarching advice to GPs is to do the groundwork so they know their plan well enough to articulate it to LPs. While there may be a temptation for an emerging manager to adapt its plan to accommodate the LPs, they will respond better to a manager that has thought through the six Ps (and even the seventh!) and can clearly describe its intentions. Of course, a GP's strategy may not suit some LPs, but for those that may be a better match, any uncertainty or indecision about how the fund will be invested can seriously degrade efforts to build the trust required for an LP to commit to a blind pool with an unproven manager.

It may be hard to imagine, but LPs do not typically have preconceived correct answers they are waiting to hear for most of the questions they ask. That said, responses should exhibit deep reflection by the GP and be consistent with

6: While PitchBook is just one of several private market databases, to update your profile on PitchBook, you only need to send an email to survey@pitchbook.com.

each other. Answers that disappoint can cause an LP to move on to another manager—and there are many others from which to choose.

Commitments continue to pour into private markets thanks to recent record performance from VC and PE funds. It is definitely more difficult for emerging managers to raise a fund, but with a thoughtful and cohesive explanation of their approach—one that feels appropriate to each GP—many will find success.